



2008-09 STATE BUDGET ACT

"AUGUST REVISE" FLOOR REPORT

AB 1781 & SB 1072

SEPTEMBER 9, 2008

John Laird, Chair
Assembly Budget Committee



OVERVIEW

Summary

On July 8, 2008, the Conference Committee completed its work on the budget for 2008-09, and this work product, the Conference Report, is reflected in AB 1781. Despite being a responsible and balanced budget plan, the Conference Version of the budget did not receive the required 2/3 support in the Legislature.

In an attempt to forge a compromise, the Governor proposed an "August Revise" that proposes a budget that the Governor now supports. SB 1072 has been amended to make the necessary changes to the Conference Report, and together AB 1781 and SB 1072 now reflect the Governor's August Revise.

In total, the August Revise contains \$105.4 billion in available General Fund resources, \$103.5 billion in General Fund expenditures, and a reserve of \$1.1 billion.

Key Changes from the Conference Version:

- ◆ **Deeper Cuts to Proposition 98.** Cuts Proposition 98 funding by an additional \$1.1 billion below the Conference Version, which already cut about \$2 billion. However, this level of funding is about \$1 billion more than proposed by the Governor in the May Revision.
- ◆ **Temporary Tax Increase.** Temporarily increases the sales tax by 1 cent for three years, which generates about \$4 billion for 2008-09.
- ◆ **Permanent Tax Cut.** Permanently cuts the sales tax by ¼ cent beginning in 2011.
- ◆ **Deeper Cuts.** Makes deeper cuts in public transit (\$317 million), suspending the Federal SSI COLA (\$109 million), delaying the Medi-Cal Rate restoration to March 1, 2009 (\$210 million), shifting additional funds from Redevelopment Agencies (\$228 million), reducing support for low income senior renter and homeowner programs (\$56 million), deferring the Proposition 98 "Settle-up" payment (\$150 million), and various additional Health and Human Services reductions.

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- ◆ **Increased Spending.** Spends more than the Conference Version by restoring \$261 million in budget reductions to Corrections and \$145 million for local law enforcement programs.
- ◆ **Budget Reform.** Includes budget reform that goes further than other similar proposals being discussed, by increasing the size of the Budget Stabilization Account, restricting all so-called "April Surprise" revenue, and providing expanded mid-year powers to the Governor.
- ◆ **Lottery Securitization.** Includes a lottery securitization proposal that will generate \$5 billion in debt relief in 2009-10 and likely more in the following year.

Key Highlights of the August Revise:

Reserve

- ◆ Contains a reserve of \$1.1 billion in 2008-09, and is balanced into the future.

Revenues

- ◆ Includes \$8.7 billion in revenue solutions:
 - \$4 billion from the temporary 1 cent sales tax increase.
 - \$1.1 billion from suspending the NOL for two years.
 - \$855 million in various Special Fund loans and transfers to the General Fund.
 - \$1.9 billion from accrual accounting changes.
 - \$360 million from a modified tax amnesty proposal.
 - Approximately \$500 million in various revenue estimate updates.

Reform

- ◆ Includes budget reform that in part is based on the ideas first put forth by the Legislative Analyst, but goes further than the LAO proposal or the proposal included in the Assembly vote on August 17th.
 - Increases the size of the Budget Stabilization Account (BSA)—the Prop. 58 "rainy day" fund—from 5% to 12.5% of General Fund revenues.

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- Captures all so-called "April Surprise" revenues not needed for Proposition 98 to be deposited into the BSA.
- Makes transfers out of the BSA more restrictive.
- Provides mid-year powers to the Governor to make budget reductions and to delay scheduled Cost-of-Living Adjustments.

Education

- ◆ Increases school funding by about \$1.1 billion above the May Revision. This results in about \$3.2 billion in cuts below the workload budget level.
- ◆ Funds the UC and CSU at the level proposed in the May Revision, which includes a \$100 million increase for each above the January proposal.
- ◆ Restores full funding for Cal Grants, including \$57 million for competitive Cal Grants that the Governor proposed cutting.

Health

- ◆ Restores the most difficult cuts proposed by the May Revision, including:
 - Restoring nearly all of the 10 percent Medi-Cal rate cut adopted in the Special Session for most providers (doctors, nurses, dentists, home health providers, etc.), and half of the rate cut for pharmacy, managed care and long-term care facilities that do not pay the quality assurance fee (most nursing homes pay the fee and will receive a cost-based rate increase). These rate restorations will take effect on March 1, 2009 and will result in a total General Fund cost of \$110 million.
 - Restoring the Medi-Cal optional benefits. Of the restoration of \$85.5 million, the adult dental restoration is \$73.8 million.
 - Restoring almost all cuts to Medi-Cal eligibility, by: rejecting the rollbacks in eligibility for poor families that penalize work and marriage; rejecting restrictions on services to legal immigrants and imposing monthly eligibility hurdles to emergency care for the undocumented; and rejecting the imposition of quarterly status reports for children and parents and instead adopting semi-annual status reporting for children, which is the current reporting requirement for parents.
 - Rejecting the co-pay increase and reducing premium increases by half or more for children in the Healthy Families Program.

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Human Services

- ◆ Makes tough cuts to human service programs, including cuts to SSI/SSP, CalWORKs, and other critical safety net programs.
- ◆ Suspends the Federal SSI COLA, which is not included in the Conference Version.
- ◆ Restores other draconian cuts proposed by the Governor for the social safety net, including rejecting cuts to: children's services and foster care; CalWORKs kids eligibility; grant reductions; and IHSS.
- ◆ Makes cuts to county administration not included in the Conference Version.

Transportation

- ◆ Provides full funding of Proposition 42, which provides \$1.4 billion for highway construction, local road maintenance, and public transit.
- ◆ Funds public transit at the May Revision level, which is \$317 million below the Conference Version, for a total cut to public transit of over \$1 billion.
- ◆ Provides funding for various Proposition 1B programs, including local transit, State and Local Partnership, and the Trade Corridor Improvement Fund.
- ◆ Includes the Governor's proposed \$11 car registration fee increase to support the California Highway Patrol.

Natural Resources and Environmental Protection

- ◆ Doubles the Governor's proposed Emergency Insurance Surcharge to generate funds for fighting forest fires and dealing with other emergencies. The annual surcharge will average about \$25 for properties in high risk areas and \$13 for properties in low risk areas.
- ◆ Provides funds for AB 32 to continue implementation of strategies to reduce greenhouse gas emissions in California.

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Public Safety

- ◆ Achieves \$174 million in savings from Corrections reforms.
- ◆ Restores cuts to COPS/Juvenile Justice program that are included in the Conference Version.
- ◆ Funds Booking Fees and Rural Sheriffs programs at the May Revision level.

Lottery Securitization

- ◆ Provides for the securitization of State Lottery revenues for debt relief purposes beginning in 2009-10.
 - Generates an estimated \$5 billion in 2009-10 and \$5 billion in 2010-11, but are not expected to generate revenues or provide any budget relief in 2008-09.
 - Deposits proceeds from the securitization into a new Debt Retirement Fund, and could be used for repaying budgetary borrowing (like transportation, education, and local government debts), bonded indebtedness, and payments to the BSA.
 - Provides only modest changes to the lottery, such as increasing prize payouts, but proposes no new games or technology.
 - Protects education, unlike the Governor's original proposal, from experiencing any financial loss.

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Summary of Charts

May Revision / Conference Version / August Revise
General Fund Summary
(in billions)

	May Revision	Conference Version	August Revise
Prior-year balance	\$1.7	\$3.3	\$3.9
Revenues and Transfers	\$103.0	\$104.4	\$101.5
Total Resources Available	\$104.7	\$107.7	\$105.4
 Total Expenditures	 \$101.8	 \$105.2	 \$103.5
 Fund Balance	 \$2.9	 \$2.5	 \$1.9
 Budget Reserves:			
(Liquidation of Encumbrances)	(\$.9)	(\$.9)	(\$.9)
Final Reserve	\$2.0	\$1.6	\$1.1

**Key Budget Cuts Included in
August Revise**

K-12 and Community College Prop 98 Cuts	\$3.2 billion
University of California Cuts	\$233 million
California State University Cuts	\$215 million
Suspension of State SSI/SSP COLAs	\$302 million
Suspension of the Federal SSI COLA	\$109 million
Suspension of CalWORKs COLA	\$131 million
Medi-Cal Rate Cuts	\$307 million
Medi-Cal Semi-Annual Reporting for Children	\$25 million
Corrections Reforms	\$174 million
Public Transit	\$1.1 billion

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Comparison of Solutions for the \$15.2 Billion General Fund Shortfall
May Revision / Conference Version / August Revise
(in billions)

	May Revision	Conference Version	August Revise
Starting Problem	-\$15.2	-\$15.2	\$15.2
Expenditure Solutions			
Non-98 Budget Balancing Reductions & Misc.	\$2.8	\$1.7	\$1.8
Prop 98 Reductions	4.3	2.1	3.2
LAO Property Tax estimate (reduces GF for Education)	0.0	0.6	0.6
Transit Cuts	0.8	0.5	1.1
CCPOA Last, best, and final	0.4	0.5	0.5
HHS cuts not part of BBR	0.6	0.3	0.4
PERS/STRS savings issues	0.1	0.2	0.2
Cal Grant Cuts	0.1	0.0	0.0
Delay local Mandates	0.1	0.1	0.1
Total Expenditure Solutions	\$9.1	\$6.0	\$7.9
Revenue Solutions			
Tax Increases:	\$0.0	\$8.2	\$5.1
<i>subtotal</i>	<i>\$0.0</i>	<i>\$8.2</i>	<i>\$5.1</i>
Borrowing:			
Lottery Securitization Revenues	\$5.1	\$0.0	\$0.0
Special Fund Loans/Transfers	0.7	0.7	0.9
<i>subtotal</i>	<i>\$5.8</i>	<i>\$0.7</i>	<i>\$0.9</i>
Other Revenues:			
LLC Acceleration	\$0.4	\$0.4	\$0.0
Amnesty	0.0	1.5	0.4
Tax Accrual	1.9	0.0	1.9
Misc.	0.1	0.1	0.1
<i>subtotal</i>	<i>\$2.3</i>	<i>\$1.9</i>	<i>\$2.4</i>
Total Revenue Solutions	\$8.1	\$10.8	\$8.4
Grand Total, Solutions	\$17.2	\$16.8	\$16.3
Final Reserve	\$2.0	\$1.6	\$1.1

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Key Non- General Fund Changes to the Conference Version
(in millions)

	Amount
Special Fund Restorations	
Restore Regional Operational Readiness	\$1.6
Increase Fire Prevention in State Parks	3.0
Restore Funding for Hydrogen Highway	6.0
Restore Lease Revenue funding for San Quentin	136.3
Restore portion of PUC Cut	2.5
Restore FI\$CAL Funding	37.7
Total General Fund Restorations	\$187.1